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TAGS: [EMIN](#) [ECON](#) [PINS](#) [PREL](#) [ER](#) [CH](#)  
SUBJECT: CHINESE MINING WOES IN ERITREA

REF: ASMARA 168

Classified By: Ambassador Ronald K. McMullen for reason 1.4(d)

11. (C) LOWERED CHINESE EXPECTATIONS: The Chinese mining company "Eritrea-China Exploration and Mining Company" (ECEM), one of four Chinese mining or exploration companies operating in Eritrea, has run into substantial problems and is pessimistic about its prospects, according to a well-placed Chinese source in Asmara. Logistical nightmares, security concerns, and technical problems have combined to dampen Chinese enthusiasm about mineral prospects here.

12. (C) LOGISTICS, SECURITY, GEOLOGY: ECEM has taken over two old Egyptian-Italian gold mines near Awgara, situated 30 miles west of Badme, in Eritrea's western lowlands. Getting workers, supplies, and equipment to this isolated location has proven more difficult than expected, according to the Chinese source. One logistics base was reportedly trashed by migrating elephants. Further, the local security situation is reportedly dicey; the residence of the Eritrean district administrator has twice been attacked with rocket-propelled grenades by unknown assailants in recent months. As a result, the Eritrean army has assigned a unit of infantry to help protect the Chinese mining operation. Further, the "rocks were harder than expected and broke the machinery," resulting in the subcontracting of some technical work to a seasoned Canadian firm, this source continued.

13. (C) CHINESE INTEREST IN BISHA: Chinese commercial banks have lent the government of Eritrea \$25m with which to make the down payment on an optional 30% equity stake in Eritrea's most advanced and promising mining venture, Nevsun's Bisha mine. The Chinese source claimed Eritrea originally sought soft loans or grants from the government of China to purchase this equity stake, but was rebuffed. While Bisha's prospects remain bright, the poor overall situation in Eritrea reportedly has caused concern in some Chinese circles about the soundness of this loan. The Chinese interlocutor commented that the two new Chinese exploration companies operating in Eritrea (ref) are not serious players.

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